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Indian Macro-economic Scenario

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** The views in this presentation do not necessarily reflect those of the Council*

Overview

- Recent Economic Growth in Comparative Perspective
- Current Macro-economic Trends:
 - Growth
 - External Balance
 - Internal Balance
 - Inflation
- Structural and Cyclical Macroeconomic Issues: SWOT Analysis of the Indian Economy
- Some key macro-economic policy debates in India.

**RECENT ECONOMIC
GROWTH IN
COMPARATIVE
PERSPECTIVE**

GDP Per Capita (\$ PPP) 2010

• India	3550
• China	7640
• UK	36410
• Japan	34640
• USA	47360

Bottomline: Despite rapid growth in the recent past, and although it is a relatively large economy (5th at PPP and 11th at MER), India remains a poor country, even by middle-income country standards. Sustaining high growth over an extended period critical for India.

Policy initiatives for creating productive service and industrial jobs to move people out of low productivity agricultural jobs without destroying overcrowded cities.

Recent Economic Growth in Comparative Perspective

Period/Year	World	Adv Econs	EMDEs	India	China	China-India
1994-2003	3.4	2.8	4.4	6.0	9.5	3.5
2004	4.9	3.1	7.5	7.6	10.1	2.5
2005	4.6	2.6	7.3	9.0	11.3	2.3
2006	5.3	3	8.2	9.5	12.7	3.2
2007	5.4	2.8	8.7	10.0	14.2	4.2
2008	2.8	0.1	6.1	6.9	9.6	2.7
2009	-0.6	-3.5	2.7	5.9	9.2	3.3
2010	5.1	3	7.4	10.1	10.4	0.4
2011	3.8	1.6	6.2	6.8	9.2	2.4
2012	3.3	1.3	5.3	4.9	7.8	3.0
2013	3.6	1.5	5.6	6.0	8.2	2.3
Av. 2004-07	5.1	2.9	7.9	9.0	12.1	3.0
Av. 2008-12	2.9	0.5	5.5	6.9	9.3	2.4

The Big Picture Since the Onset of the Global Financial Crisis

- The pre-crisis boom was really a spurt in growth in EMDEs
- The global economy is now growing far below the pre-crisis boom level, but still growing at the average of 1994-2003.
- Advanced economies are growing at about half the 1994-2003 and pre-crisis boom level.
- EMDEs growing significantly below the pre-crisis boom average, but still higher than the 1994-2003 average.
- China and India at the upper end of the EMDE trend.
- Growth differential between China and India narrowing?

2011-12 and 2012-13 bad years

- India weathered the initial effects of the Global Financial Crisis reasonably well.
- However Sharp fall in growth since 2011-12
- External and Domestic headwinds
- Sharp fall in Savings: Uptrend in Savings and Investment chief driver of recent increase in growth potential
- Growth bottomed out?

CURRENT MACRO- ECONOMIC TRENDS

The Growth Equations

- National Income = Consumption(G+P) + Investment (G+P) + (X-M)
- $S - I = X - M$
- $I = S - (X - M)$

Macro-economic Parameters

	Investment Rate	Gross Domestic Capital Formation	Gross Domestic Fixed Capital Formation	Domestic Savings Rate	Final Consumption Rate		Current Account Balance	Gross Domestic Capital Formation (GDCF)		GDCF Domestic Capital only		Final Consumption Expenditure		
					Pvt.	Govt		Total	Pvt. Corp.	Total	Pvt. Corp.	Private	Govt	Total
Ratio to GDP at market prices							Growth rate at Constant Prices							
2000/01	24.3	24.2	22.7	23.7	64.0	12.6	-0.6	-4.0	-28.3	-0.0	-11.0	3.6	0.9	3.2
2001/02	22.8	24.2	23.6	23.5	64.5	12.4	0.6	3.8	8.6	7.4	3.6	5.7	2.3	5.2
2002/03	25.2	25.2	23.8	26.3	63.3	11.9	1.2	10.9	17.1	6.8	3.5	2.8	-0.4	2.3
2003/04	27.6	26.8	25.0	29.8	61.8	11.3	2.2	12.9	24.6	13.6	23.2	6.0	2.6	5.5
2004/05	32.8	32.5	28.7	32.4	59.1	10.9	-0.4	22.3	68.1	18.9	62.8	5.5	3.6	5.2
2005/06	34.7	34.3	30.3	33.5	58.3	10.9	-1.2	17.0	45.0	16.2	43.1	8.5	8.9	8.6
2006/07	35.7	35.9	31.3	34.6	57.7	10.3	-1.1	15.3	19.1	13.8	17.9	8.7	3.8	7.9
2007/08	38.1	38.0	32.9	36.8	57.0	10.3	-1.3	17.7	32.8	16.2	27.7	9.2	9.6	9.3
2008/09	34.3	35.5	32.3	32.0	57.7	10.9	-2.3	-2.5	-29.5	3.5	-21.9	7.1	10.4	7.6
2009/10	36.9	36.1	31.6	34.1	57.4	12.0	-2.8	9.8	23.9	6.8	15.2	7.0	14.3	8.1
2010/11 QE	34.7	35.8	30.4	32.0	56.5	11.9	-2.7	9.9	8.0	7.5	4.7	8.1	7.8	8.1
2011/12 Rev	34.7*	35.5	29.5	30.4*	56.0	11.5	-4.2	5.2	3.9*	5.5	4.0*	5.5	5.1	5.4
2012/13 Proj	35.3	35.5	30.0	31.7	56.5	11.0	-3.6	6.1	5.9	5.9	6.0	6.5	5.5	6.3

Note: * Estimated. The rest of the figures are derived from the CSO Press Release on GDP, May 2012.

Structural Factors

- **Savings and Investment have declined recently.**

- increase in the negative savings by Government,
- the decline in profitability of private corporates, and
- decline in net financial savings of households
because of negative real interest rates
- Savings declined more sharply than investment, pushing up the CAD.

PMEAC's Growth Projections 2013-14

Table 1

Year-on-year rates of growth at constant (2004-05) prices

Unit: per cent, unless otherwise specified

ANNUAL RATES	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
						<i>QE</i>	<i>AE</i>	<i>Proj</i>	
1 Agriculture & Allied Activities	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.8	3.5
2 Mining & Quarrying	1.3	7.5	3.7	2.1	5.9	4.9	-0.6	0.4	2.3
3 Manufacturing	10.1	14.3	10.3	4.3	11.3	9.7	2.7	1.9	4.0
4 Electricity, Gas, Water Supply	7.1	9.3	8.3	4.6	6.2	5.2	6.5	4.9	6.4
5 Construction	12.8	10.3	10.8	5.3	6.7	10.2	5.6	5.9	7.0
6 Trade, Hotels, Transport, Storage & Communication	12.0	11.6	10.9	7.5	10.4	12.3	7.0	5.2	7.6
7 Finance, Insurance, Real Estate & Business Services	12.6	14.0	12.0	12.0	9.7	10.1	11.7	8.6	9.0
8 Community & Personal Services	7.1	2.8	6.9	12.5	11.7	4.3	6.0	6.8	6.0
9 GDP (factor cost)	9.5	9.6	9.3	6.7	8.6	9.3	6.2	5.0	6.4
10 Farm Sector	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.8	3.5
11 Industry (2 + 3 + 4 + 5)	9.7	12.2	9.7	4.4	9.2	9.2	3.5	3.1	4.9
12 Services (6 + 7 + 8)	10.9	10.1	10.3	10.0	10.5	9.8	8.2	6.6	7.7
13 Non-Farm GDP (9 - 1)	10.5	10.8	10.1	8.1	10.1	9.6	6.6	5.5	6.8
14 GDP (factor cost) per capita	7.8	8.0	7.8	5.2	7.1	7.8	4.8	3.7	5.1

External Balance

<i>US\$ billion</i>	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12	2012/ 13*	2013/ 14 *
Merchandise Exports	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	301.1	329.7
Merchandise Imports	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	501.1	542.7
Merch Trade Balance	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-200.0	-213.0
	-4.7%	-6.2%	-6.5%	-7.4%	-9.7%	-8.6%	-7.6%	-10.2%	-10.9%	-9.9%
Net Invisibles	31.2	42.0	52.2	75.7	91.6	79.7	84.6	111.6	105.8	113.0
	4.3%	5.0%	5.5%	6.1%	7.4%	5.8%	4.9%	6.0%	5.7%	5.3%
o/w Software & BPO	14.7	23.8	27.7	37.2	47.0	41.5	49.6	60.1	62.4	72.0
Private Remittances	20.5	24.5	29.8	41.7	44.6	53.5	53.1	63.5	65.6	69.0
Investment Income	-4.1	-4.1	-6.8	-4.4	-6.6	-5.5	-16.4	-16.5	-24.0	-28.0
Current Account	-2.5	-9.9	-9.6	-15.7	-27.9	-38.5	-45.9	-78.2	-94.2	-100.0
	-0.3%	-1.2%	-1.0%	-1.3%	-2.3%	-2.8%	-2.7%	-4.2%	-5.1%	-4.7%
Foreign Investment	13.0	15.5	14.8	45.0	3.5	51.2	38.0	39.2	41.5	42.0
o/w FDI (net)	3.7	3.0	7.7	15.4	17.5	18.8	7.7	22.1	17.8	24.0
Inbound FDI	6.0	8.9	22.7	34.2	35.0	33.1	24.0	33.0	26.1	36.0
Outbound FDI	2.3	5.9	15.0	18.8	17.5	14.4	16.3	10.9	8.3	12.0
Portfolio Capital	9.3	12.5	7.1	29.6	-14.0	32.4	30.3	17.2	23.7	18.0
Loans	10.9	7.9	24.5	41.9	4.1	14.3	27.9	19.3	30.5	36.0
Banking Capital	3.9	1.4	1.9	11.8	-3.2	1.5	5.0	16.0	24.2	22.0
Other Capital	0.7	1.2	4.2	9.5	4.5	-13.0	-10.4	-6.9	-2.0	0.0
Capital Account	28.0	25.5	45.2	108.0	8.7	53.4	60.0	67.8	94.2	100.0
	3.9%	3.1%	4.8%	8.7%	0.7%	3.9%	3.5%	3.6%	5.1%	4.7%
Errors & Omissions	0.6	-0.5	1.0	1.2	1.1	-1.6	-2.6	-2.4	2.5	0.0
Accretion to Reserves	26.2	15.1	36.6	92.2	-18.1	13.3	11.5	-12.8	2.5	0.0
	3.6%	1.8%	3.9%	7.4%	-1.5%	1.0%	0.7%	-0.7%	0.1%	0.0%

Note: * The column for 2012-13 is estimated and that for 2013-14 is projected

CAD

The main source of concern at present and needs to be brought down to more prudent levels urgently. However financing the CAD is not expected to be a problem. EAC projects the CAD for 2012-13 at (-) 5.1% as against (-) 4.2% in 2011-12. The projection for 2013-14 is at (-) 4.7% on the assumption that merchandise exports would do better, avoidable imports contained and services exports would improve.

Reason for sharp rise in CAD in recent years

- **Slowing growth in ITES exports and remittances (invisibles)** on the receipt side, thereby sharply reducing their capacity to finance the merchandise trade deficit.
- **Sharp increase in oil and gold imports** on the debit side: Taking the average for the periods April to December 2010, 2011 and 2012, their contribution to total import growth was 50% (petroleum 38.5% and gold 11.5%)
- **Had gold imports remained at the level of 700 metric tonnes per annum** (the average of 2003-04 to 2007-08), **the CAD would have been lower by .4% in 2009-10, .5% in 2010-11 and by 1% in 2011-12.**
- **Sharp increase in negative balance on net investment income** from an average of about (-) 4 billion between 2000-01 and 2005-06 to an estimated (-) 24 billion in 2012-13.

Fiscal Position in India

Unit: per cent of GDP

Year	Centre			States			Consolidated		
	Rev. Deficit	Fiscal * Deficit	Primary Deficit	Rev. Deficit	Fiscal Deficit	Primary Deficit	Rev. Deficit	Fiscal * Deficit	Primary Deficit
2002-03	4.40	6.04	1.11	2.33	3.88	1.25	6.64	9.71	3.02
2003-04	3.57	4.62	-0.03	2.19	4.27	1.46	5.79	8.65	1.95
2004-05	2.42	3.90	-0.04	1.21	3.11	0.66	3.54	7.26	1.12
2005-06	2.50	4.73	0.37	0.19	2.33	0.16	2.69	7.26	0.79
2006-07	1.87	4.27	-0.18	-0.58	1.82	-0.37	1.29	6.32	-0.33
2007-08	1.05	3.11	-0.88	-0.86	1.49	-0.49	0.19	4.65	-1.02
2008-09	4.54	8.20	2.59	-0.21	2.40	0.57	4.33	10.62	3.45
2009-10	5.18	6.61	3.14	0.37	2.80	1.03	5.54	9.41	3.99
2010-11	3.29	4.87	1.82	-0.03	2.07	0.45	3.26	6.94	2.13
2011-12 RE	4.46	5.89	2.78	-0.06	2.28	0.74	4.40	8.18	3.41
2012-13 BE	3.45	5.06	1.91	-0.40	2.12	0.59	3.05	7.17	2.41

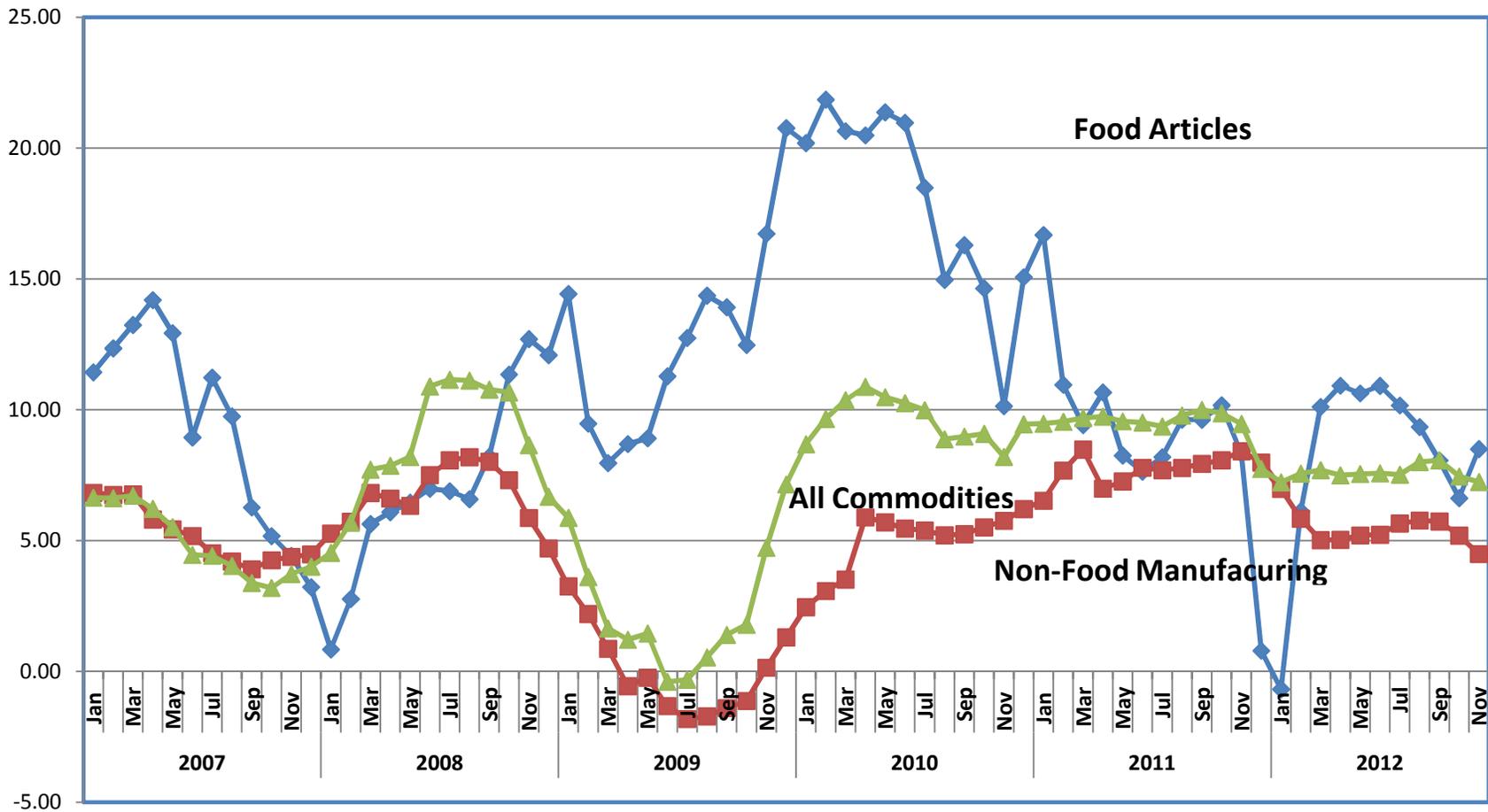
Current Fiscal Situation

- Fiscal deficit of Centre for 2012-13 estimated at 5.2% of GDP in 2012-13 (RE)
- Total Central subsidies stood at Rs. 257,654 crore (2.6% of GDP) in 2012-13
- In 2013-14, as growth recovers tax collections expected to improve; subsidies expected to decline due to pruning of petroleum subsidies

Inflation

- **Inflation is declining, but food inflation continues to be a source of concern.**
 - WPI at around 6% in 2013-14, with food inflation around 8%, fuel at about 11% and manufactured goods around 4%. Increase in administered prices reason will constrain decline.
 - Declining inflation creating space for monetary policy to support growth.
 - CPI inflation higher because of greater weightage of food.
 - Fiscal consolidation augurs well for inflation. Fiscal correction in 2012-13 has surprised on the upside, indicating government's resolve to stick to the roadmap to bring it down to acceptable levels.

Components of (WPI) Inflation



Conclusions

- Both external and domestic headwinds for growth.
- Growth and, more particularly, industrial growth has slowed but decline appears to have bottomed out and expected to rise in 2013-14.
- Economic growth declined more steeply than warranted by decline in investment so has the potential to recover quickly with determined policy action.
- Inflation continues to remain high, but coming down.
- Fiscal consolidation on track.
- CAD the main concern at present.

PMEAC's Recommendations

- **Speedier project clearance**. Cabinet Committee on Infrastructure is a step in the right direction, but more needs to be done.
- **Boosting exports of goods and services, and reducing net gold and oil imports**, critical for bringing the CAD down to more prudent levels. Improving net energy availability through price reforms, increasing domestic coal production and improving policy environment for exploration and production of hydrocarbons.
- **Continued reform of the subsidy structure**, including better targeting of merit-subsidies, for fiscal consolidation.
- **Reforms in agricultural marketing and supply chains** to manage food inflation.
- **Reverse the decline in domestic savings** through more attractive savings products and environment.

**STRUCTURAL AND
CYCLICAL ISSUES:
SWOT ANALYSIS OF
THE INDIAN ECONOMY**

SWOT Analysis of the Indian Economy

- Need to distinguish between *Structural* factors and *Cyclical* issues.
- Structural Factors:
 - Strengths
 - Weaknesses
- Cyclical Issues
 - Opportunities
 - Threats

Structural Factors : Strengths

- **Strong Entrepreneurial class** with global outlook – rapidly taking over ‘commanding heights’ of the economy from the historically dominant public sector.
- **Demographic dividend**: falling dependency ratios associated with higher growth.
- **Rising savings-investment rates** (current decline cyclical?) underlying recent increases in trend growth: importing rather than exporting capital (contrast with China and Russia – high savings but CAS; and Brazil and South Africa – low savings) : adequate capital flows to cover the CAD.
- **Big market with strong domestic demand**: 1b+ population with Gini index lowest amongst BRICS – domestic demand driven economy (contrast with China): advantage in a global downturn.
- **Good financial intermediation relative to EMDE peers**: unaffected by GFC
- **Services, esp. IT** : sunrise sector not overly dependent on heavy infrastructure
- **Floating Xchange rate** and self-limiting external imbalances? : Adequate reserves to cushion against external shocks
- **Market economy with a stable democracy**: No extra-legal expropriations or rollback of decisions once taken – based of broad civil society consensus across the political spectrum and strong judicial oversight.

Structural Factors : Weaknesses

- The **Twin Deficits**:
 - ***High fiscal deficits*** (internal imbalance) – need to rein in subsidies and change fiscal mix; crowding in/out effects
 - ***Large CADs*** (external imbalance): Commodity and POL dependence: high prices, impairing competitiveness?
- Despite similar factor advantages, labour laws and overall investment climate too inflexible relative to China for **labour intensive manufacturing**.
- **Backlog and policy environment in infrastructure investment** (physical and social) a drag on productivity; policy environment (land use policy; user charges; long-term finance) more critical in India because of greater reliance on private & PPP investment.
- **Agriculture**: Low productivity: Share in national income shrinking much faster than share in total labour force. Untouched by opening up and liberalization of the Indian economy since the early 1990s: Market rigidities constraining supply response to prices.
- Poor **Education and Labour skills** can negate the demographic dividend.
- Weak **project implementation and governance**
- **Democracy tax**: Paid upfront: Lack of political consensus on rapid growth as the primary focus. Strong consensus on weak reforms because of multiple objectives? Relative to other EMDEs India needs more growth than inclusiveness?

Cyclical Issues : Opportunities

- **High growth creates fiscal space** for infrastructural investment (debt/GDP ratio stable despite large fiscal deficits)
- **QE in AEs supportive of capital inflows**, making financing of CAD easier (FE reserves not drawn down despite large CAD), giving more time to adjust
- **Chinese rebalancing** should make Indian manufacturing more competitive provided structural reforms are undertaken
- **FDI in retail should improve agricultural productivity** through improved infrastructure and capital investment.
- **Cabinet Committee on Investment** to speed up project implementation
- **Structural reforms can boost productivity and unlock inherent structural strengths**, especially in industry (labour costs) and agriculture (labour cost plus natural fertility and photo period advantage): investment rate still high.
- **Federal-States equation** and competitive policy environments: major reforms ahead – land and labour markets; agriculture; governance – lie in their domain.

Cyclical Issues : Threats

- **Weak and protracted recovery in advanced economies** – severe downside risks (fiscal cliff: US; financial meltdown: Euro Zone) abating?
- **Persistent inflationary pressures:**
 - Constraining space for monetary policy
 - Negative real interest rates leading to ↓ in financial savings and ↑ in gold
- **Fiscal consolidation being derailed** by the electoral cycle.
- **Rising banking sector NPAs** deriving from declining growth and profitability
- **Basel III** and potential increase in cost of capital
- **Elevated commodity, especially oil, prices** (QE works both ways for India – adverse for oil prices, benign for capital flows)
- Impact of elevated CAD on **External Debt and confidence**
- **Decline in growth out of proportion to decline in investment:** lower productivity?
 - MNREGA: social safety net – rising wages with no productivity shift
 - Fiscal mix tilted towards consumption rather than investment
 - Market rigidities in agriculture feeding into inflation
 - Policy logjam locking up capital investment

Rising External Vulnerabilities?

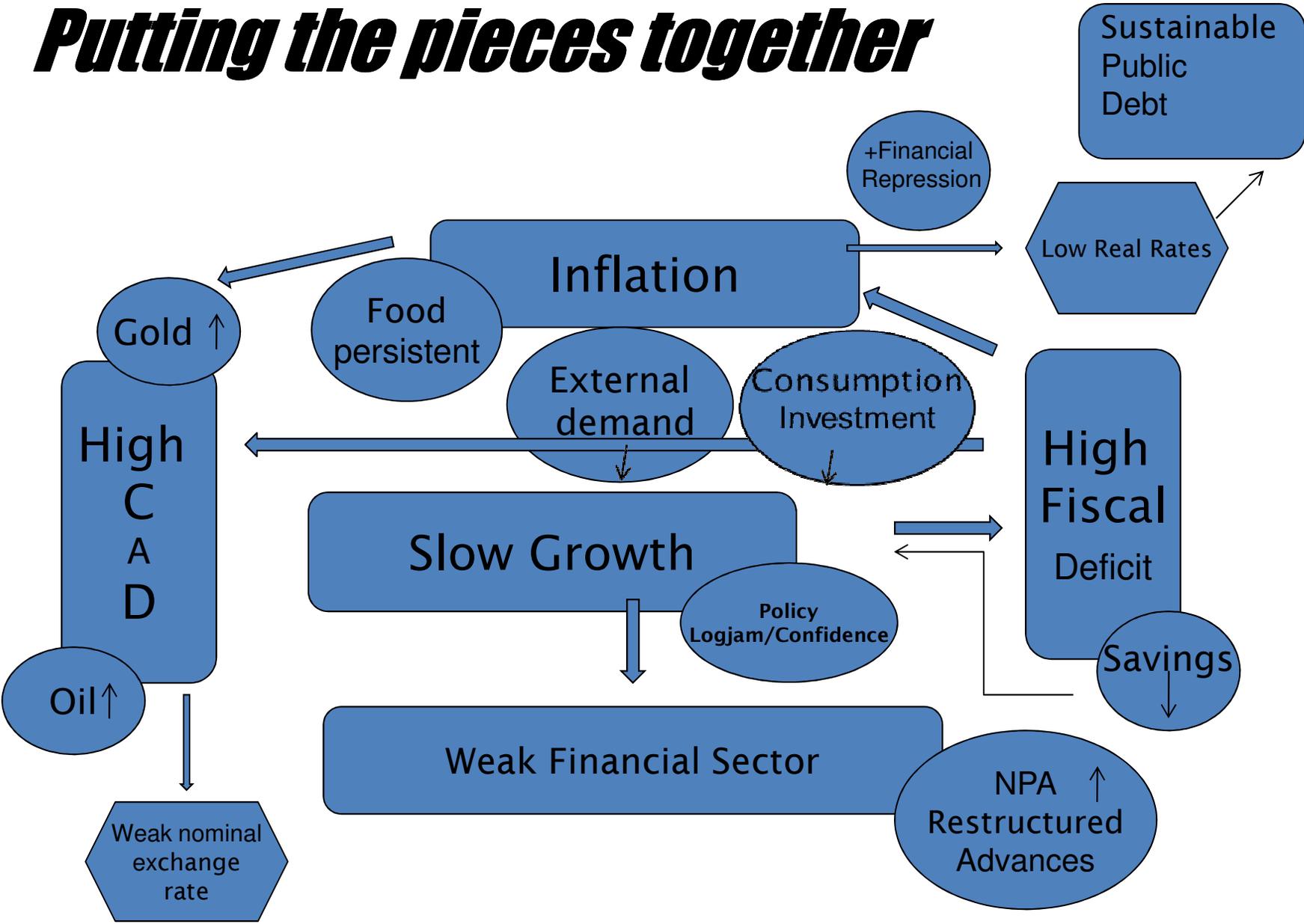
- Does the recent worsening in external parameters, such as the trade and current account deficits, and external debt, imply that the country has become as vulnerable to external shocks, or a balance of payments crisis, as it was in the early nineties?
- Spurt in growth in recent years based on sharp rise in both domestic savings, investment and growth. Investments have grown more sharply than savings, and also declined less sharply.
- As a result, trade and current account deficits now larger than in the nineties, and our reliance on external funding much greater as a proportion of the national income.

Macroeconomic Parameter	1990-91	2011-12
Trade Deficit/GDP	2.9%	10.2%
Current Account Deficit/GDP	3.0%	4.2%
Fiscal Deficit (Center)/GDP	7.6%	5.7%
Fiscal Deficit (Combined)/GDP	9.1%	6.9%
Wholesale Inflation	10.3%	9.0%
GDP Growth	5.3%	6.2%
Debt GDP Ratio	68.9%	64.7%
External Debt/GDP	28.7%	19.7%
ODA/GDP	13.9%	5.9%
Commercial Debt/GDP	11.1%	9.4%
Short Term Ext.Debt/GDP	2.9%	4.5%
ODA/Total Ext Debt	50.1%	29.9%
Commercial/Total Ext Debt	39.7%	47.5%
Short term Ext.Debt/Total Ext Debt	10.2%	22.6%
Debt Service Ratio	35.3%	6.0%
Foreign Currency Reserves (Billion\$)	2.2	260.1
Months of Forex cover for financing CAD	3	40
Savings/GDP	22.9%	30.8%
Investments/GDP	24.9%	35.4%
Net Capital Account/GDP	2.2%	3.6%
Net FII Inflows/NCA	0.1%	25.7%
Net ODA inflows/NCA (1991-92)	102.3%	6.2%
Net Commercial Debt Inflows/NAC (1991-92)	26.7%	33.2%
FII Stock/FCR	0.3%	60.2%
FII Stock+Short term Debt/FCR	382.4%	90.3%

Overall, external sector in much better shape than in 1990-91....

- While the overall public debt has improved slightly, the country's external debt has declined sharply.
- The increase in the short-term component of external debt, which is the most volatile, is no doubt a source of some concern, but it should at the same time be kept in mind that the definition of short term debt changed during this period to include short-term trade credits. The two sets of data are not strictly comparable.
- Debt service ratio, or interest payments on external debt as a percentage of total external receipts, has declined very sharply.
- Foreign currency reserves, both in absolute terms and when measured in terms of number of months of cover for the current account deficit, has increased several-fold. Therefore much greater cushion against external shocks.
- Net capital flows have increased sharply, both in absolute terms, and as a percentage of the National Income. The accumulation of large foreign currency reserves despite persistent current account deficits is merely the lagged effect of such large inflows over and above what was required to finance the current account deficit over an extended period.
- The share of ODA in financing external deficits has declined sharply and become negligible, as capital inflows have become commercial in nature. There is some legitimate concern, however, that the country has accumulated a large stock of volatile external liabilities, namely FII and short term debt. Nevertheless, the stock of these liabilities as a proportion of foreign currency reserves is far lower today than in 1990-91.

Putting the pieces together



KEY MACRO-ECONOMIC POLICY DEBATES

The Monetary Policy Debate

- Traditionally monetary policy in India has been targeting both inflation and growth.
- When growth is above potential, inflation is expected to rise, and the central bank cools the economy by raising rates, thereby lowering inflation. The reverse happens when growth is below trend.
- The dilemma arises when growth and inflation move in different directions.

The Inflation Debate

- What is driving inflation in India when it is subdued elsewhere?
- Stagflationary? Growth and inflation moving in different directions
- High fiscal deficit highest amongst major EMEs
- ‘good’ food inflation: higher incomes (MNREGA; poverty decline.
- Market failure and supply rigidities

The Growth Debate

- Mix of External and domestic headwinds.
- Why had Indian growth dipped so sharply, especially since it is a domestically driven economy?
- Productivity of capital invested has declined sharply.
- Basic drivers – high savings and investment, big domestic market -- intact: unlike most other EMDEs, key levers for growth revival are internal.

Declining Productivity of Capital

Period	ICOR		ICOR Fixed		ICOR with GDP (fc)	
	Mean	CV	Mean	CV	Mean	CV
1952/53 – 1964/65	3.8	40.7%	3.7	38.2%	4.3	49.0%
1967/68 – 1978/79	6.1	86.5%	5.7	78.0%	6.5	91.4%
1980/81 – 1990/91	4.0	25.2%	3.8	27.4%	4.2	32.4%
1992/93 – 2003/04	4.5	27.6%	4.1	27.6%	4.3	24.5%
2004/05 – 2010/11	3.8	6.7%	3.4	9.4%	3.9	7.5%

Note: † GDP growth rate is at constant and market prices.

GDP (fc) represents GDP at factor cost – where the growth rate has been so computed.

CV denotes coefficient of variation.

Investment rate estimated at 35.8% of GDP in 2012-13

- Sharp decline in the productivity of capital as Incremental Capital Output Ratio (ICOR) shot up from the recent trend of 4 to ranges from 5.4 to 11.4 in 2012-13 depending on method of computation.
- Investment capital accumulated in projects not yielding commensurate output
- With appropriate policy and administrative actions the economy can grow at 7.5 to 8% over the short-term even at existing levels of investment, and higher with a return to recent levels of savings and investment.

What Happened?

- When growth is at or above trend a sense of complacency can creep in.
- Structural impediments to sustaining high growth not addressed during the boom:
 - Advanced economies: low wage growth, adverse demographics, financial excesses, and structural budget deficits.
 - India: infrastructure deficit, second generation reforms to free up land, labour and capital markets, improve the fiscal mix and governance, to improve productivity and investor sentiment.
- **Result**: Problems mount on the supply side resulting in inflationary pressures, and loss of monetary and fiscal policy space to address the decline in growth.
- **Solution?**: Bold decisive steps to address the above that can fire animal spirits.

Thank You